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INFO AMEMBASSY WELLINGTON

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CINCPAC FOR PLLAD

E.O. 11652: GDS

TAGS: PFOR, AS, US

SUBJECT: LABOR, ECONOMIC, AND POLITICAL PROBLEMS MOUNT FOR GOVERNMENT OF AUSTRALIA

REF: CANBERRA A-114, JULY 10

1. SUMMARY: RECENTLY RE-ELECTED WHITLAM GOVERNMENT IS PRESENTLY BESET BY FRUSTRATING WEB OF POLITICAL AND ECONOMIC PROBLEMS, INCLUDING ACCELERATING INFLATION, WIDESPREAD LABOR UNREST, AND INDISCIPLINE AMONG LABOR PARTY PARLIAMENTARIANS. OPPOSITION LEADERS ARE ENCOURAGED TO NOTE THAT THEIR CHANCES OF REGAINING POWER SEEM IMPROVED, ALTHOUGH MUCH MAY HAPPEN BETWEEN PRESENT SLUMP IN ALP FORTUNES AND NEXT NATIONAL ELECTIONS. CONSULATION FOR U.S. IS THAT ALL OF THESE DIFFICULTIES MAY FOCUS ATTENTION OF WHITLAM AND CAIRNS UPON DOMESTIC PROBLEMS. END SUMMARY

2. RE-ELECTED TO OFFICE LESS THAN THREE MONTHS AGO IN

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THE MAY 18 GENERAL ELECTIONS, THE GOVERNMENT OF

AUSTRALIA FACES A MOUNTING SERIES OF LABOR, ECONOMIC, AND POLITICAL PROBLEMS WHICH HAVE WEAKENED ITS MORALE, ENDANGERED ITS INTERNAL UNITY, AND LEFT IT INCREASINGLY UNSURE AS TO WHAT ACTION TO TAKE. THESE PROBLEMS ARE ONLY INDIRECTLY RELATED TO EACH OTHER IN TERMS OF CAUSE, BUT THEIR EFFECTS INTERACT AND INFLAME SITUATION OVERALL.

3. RASH OF STRIKES - AFTER RATHER LOW LEVEL OF STRIKES IN 1972, WHICH LABOR UNIONS DELIBERATELY HELD DOWN IN A GENERAL ELECTIONS YEAR, STRIKES MUSHROOMED DURING 1973 AND, FUELED BY INFLATION, HAVE FURTHER EXPANDED IN 1974. AT THE MOMENT AUSTRALIAN ECONOMY IS BESET BY TWO MAJOR STRIKES, AFFECTING PETROLEUM INDUSTRY AND TRANSPORT WORKERS, WHICH ARE THREATENING ALL ASPECTS OF NORMAL LIFE AND WHICH ARE BEGINNING TO ANGER EVEN NORMALLY PHLEGMATIC AUSTRALIAN POPULATION. AT THE MOMENT SUPPLIES OF FUEL OIL AND GASOLINE HAVE ALMOST DRIED UP, HALTING AIRLINE SERVICE AND LEAVING MANY PEOPLE WITHOUT HEAT IN ONE OF AUSTRALIA'S COLDEST WINTERS (THOUGH STILL MILD BY AMERICAN STANDARDS).

4. MORE SERIOUS IS THE TRANSPORT STRIKE, WHICH HAS HALTED METROPOLITAN BUS SERVICE, DISRUPTED DELIVERIES OF MEAT AND FOOD, CLOSED DOWN BAKERIES, INTERRUPTED GARBAGE COLLECTION, AND STOPPED DELIVERIES OF ESSENTIAL SUPPLIES TO HOSPITALS. BASIC PROBLEM UNDERLYING ALL OF THESE DISRUPTIONS AND THE STRIKES THAT ARE BEHIND THEM IS THAT EXISTING SYSTEM FOR RESOLVING INDUSTRIAL DISPUTES IS MANIFESTLY BREAKING DOWN.

5. SURVEY OF INDUSTRIAL SITUATION BY LABOR ATTACHE AS OF AUGUST 8 SHOWS GROWING CONCERN EVEN AMONG TRADE UNION OFFICIALS AND LABOR POLITICIANS THAT THEY ARE RAPIDLY LOSING PUBLIC SUPPORT. IN SOUTH AUSTRALIA, FOR EXAMPLE, PREMIER DON DUNSTAN TOLD UNION EXECUTIVES AUG 7 HE WAS VERY WORRIED ABOUT POSITION OF ALP, SAYING PARTY WOULD LOSE BADLY IF IT HAD TO ENTER BY-ELECTION OR OTHER CONTEST SOON. IN VICTORIA KEN STONE, SECRETARY OF TRADES HALL COUNCIL, REPORTS MUCH CONFIDENTIAL

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CONFUSION AMONG WORKERS WITH EVERYONE WATCHING TRANSPORT WORKERS. STONE HIMSELF IS PUZZLED BY ACTION BY TRANSPORT WORKERS, WHO HAVE VOTED TO CONTINUE TO STRIKE UNTIL MIDNIGHT SUNDAY, AUG 11, BUT HAVE NO ANNOUNCED PLANS FOR ACTION THEREAFTER. STONE ASSUMES TRANSPORT STRIKE WILL BEGIN TO BREAK UP AUG 12 BUT HAS NO FIRM INFO ON SUBJECT. IN WESTERN AUSTRALIA JIM COLEMAN, SECRETARY OF TRADES AND LABOR COUNCIL, IS

GRAVELY CONCERNED ABOUT POSTURE OF TRADE UNIONS IN RELATION TO GENERAL PUBLIC, WITH ALL TRANSPORT WORKERS OUT ON STRIKE AND UNCERTAINTY AS TO WHEN THEY WILL GO BACK. IN SYDNEY ROBERT CARR, MEMBER OF NSW LABOR COUNCIL, EXPRESSED DEEP CONCERN TO OUR CONSUL GENERAL OVER IMPACT OF LABOR DISPUTES ON PROSPECTS OF LABOR GOVERNMENT.

6. LABOR ATTACHE COMMENTS THAT UNIONS INVOLVED IN CURRENT STRIKES HAVE BEEN ACTING AS THEY ALWAYS HAVE IN RESPONSE TO INFLATION, SEEKING TO MAINTAIN PURCHASING POWER OF THEIR MEMBERS. THEY ARE ONLY BEGINNING TO UNDERSTAND THAT STANDARD BEHAVIOR IS JUST NOT GOOD ENOUGH IN COMPLICATED SITUATION AT PRESENT. LABOR GOVERNMENT HAS PROPOSED NUMEROUS AMENDMENTS TO EXISTING LABOR LEGISLATION, BUT FEW PEOPLE UNDERSTAND IMPLICATIONS OF CHANGES, AND MOST OF THEM APPEAR TO BE IRRELEVANT TO DEAL WITH STRIKES OF SERIOUS PROPORTIONS.

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7. ECONOMIC SITUATION - CONCERN IS GROWING AT THE LIKE-

LIHOOD OF A CRIPPLING RATE OF INFLATION, THE PROSPECT OF STAGNATING BUSINESS ACTIVITY AND RISING UNEMPLOYMENT, AND THE GOVERNMENT'S PERCEIVED INABILITY EFFECTIVELY TO DEAL WITH THE WIDENING CRISIS. AVAILABLE DATA AMPLY SUPPORT A PESSIMISTIC VIEW OF THE FUTURE COURSE OF PRICES AND ARE BEGINNING TO CONFIRM AN IMPRESSION OF INCIPIENT GENERAL ECONOMIC DOWNTURN.

8. TREASURER FRANK CREAN, IN RELEASING CPI (COST-OF-LIVING) FIGURES WHICH SHOWED AN ALARMING 4.1 PERCENT INCREASE FOR THE JUNE QUARTER, CONCEDED THAT THE FIGURES DID NOT REFELCT THE EXCLUSIVE WAGE SETTLEMENTS OCCURRING IN THE FIRST HALF OF 1974 AND VIRTUALLY PREDICTED THAT FUTURE CIP RESULTS WILL SHOW EVEN HIGHER RATES OF PRICE INCREASE. SUBSEQUENTLY, THE MELBOURNE INSTITUTE OF APPLIED ECONOMIC AND SOCIAL RESEARCH ADDED TO THE GENERAL GLOOM ON PRICES BY FORECASTING A 22 PERCENT CPI INCREASE OVER THE NEXT 12 MONTHS ACCOMPANIED BY WAGE INCREASES OF OVER 30 PERCENT.

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THE INSTITUTE'S FORECASTING RECORD IS NOT NOTABLY GOOD, BUT ITS PRESENT PROJECTIONS WERE WIDELY REPORTED IN THE PRESS AND HAVE NOT BEEN SERIOUSLY CHALLENGED, AT LEAST INSOFAR AS THEY REPRESENT ROUGHLY VALID INDICATIONS OF TRENDS NOW UNDERLYING THE ECONOMY.

9. WE HAVE PREVIOUSLY COMMENTED ON THE RATHER TENUOUS SIGNS OF SLACKENING DEMAND (A-114). DESPITE THE CONTINUING ABSENCE OF DATA UNEQUIVOCALLY SHOWING THE ONSET OF A DOWNTURN, THE INCREASING NUMBER OF REPORTS OF LAY-OFFS AND CUTBACKS CANNOT BE IGNORED. (THE PRESS OF AUG 9 REPORTS THAT EMPLOYMENT FIGURES FOR JULY WILL BE RELEASED IN THE NEXT DAY OR TWO SHOWING A "DRAMATIC" RISE IN UNEMPLOYMENT.) A MASSIVE B/P SWING INTO DEFICIT IN FY74 HAS ADDED TO LIQUIDITY WORRIES AND IS CAUSING SOME UNEASINESS AS TO THE BASIC STATE OF HEALTH OF AUSTRALIA'S EXTERNAL ACCOUNTS, WITH DEMAND FOR MAJOR EXPORTS FALLING (E.G., BEEF AND WOOL) BUT A "FLOOD" OF IMPORTS ARRIVING. THIS IS PRESUMABLY RESPONSIBLE FOR THE AUG 7 DECISION VIRTUALLY TO ELIMINATE THE VARIABLE DEPOSIT REQUIREMENT ON LONG-TERM OVERSEAS BORROWING (REPORTED SEPTEL).

10. LABOR GOVERNMENT IS MEETING GROWING PROBLEMS, NOT ONLY WITH THE OPPOSITION PARTIES BUT WITHIN ITS OWN RANKS AS WELL, IN TRYING TO DEAL WITH THE CRISIS. ITS PLEAS FOR WAGE RESTRAINT HAVE BEEN WIDELY IGNORED BY ITS WON TRADE UNION CONSTITUENTS WHO HAVE

PRESSED AHEAD WITH CATCH-UP WAGE DEMANDS. THE JULY 23 MINI-BUDGET FIASCO WAS A SORRY EXAMPLE OF THE GOVERNMENT'S INABILITY TO CONTROL ITS OWN MEMBERS WHEN POSSIBLY PAINFUL ANTI-INFLATIONARY FISCAL POLICY IS PROPOSED. AND WHAT LITTLE IN THE WAY OF INCREASED REVENUE MEASURES IT WAS ABLE ON THAT OCCASION TO GET THROUGH CABINET WAS ULTIMATELY BLOCKED UNTIL THE SEPTEMBER BUDGET SITTING BY OPPOSITION ACTION IN THE SENATE. ITS ONE RECENT MODERATE SUCCESS HAS BEEN THE INSTITUTION OF A PRICES JUSTIFICATION TRIBUNAL POLICY OF REFUSING PRICE INCREASES TO THE FULL AMOUNT OF EXCESSIVE WAGE SETTLEMENTS. EVEN

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THIS MAY PROVE TO BE ONLY A MIXED SUCCESS TO THE EXTENT THAT IT ACHIEVES THE DESIRED EFFECT OF "STIFFENING MANAGEMENT'S SPINE" BUT THEREBY EXACER- BATES AN ALREADY TENSE INDUSTRIAL RELATIONS SITUATION.

11. POLITICAL SITUATION - BEYOND IMMEDIATE PROBLEM OF ANNOYING STRIKES AND INTRACTABLE PROBLEM OF INFLATION LIE DEEPER POLITICAL PROBLEMS FACING LABOR GOVERNMENT. PRIME MINISTER WHITLAM HAS PUSHED SIX BILLS WHICH WERE BASIS FOR DOUBLE DISSOLUTION THROUGH JOINT SITTING OF PARLIAMENT, BUT THIS MAY TURN OUT TO HAVE BEEN MEANINGLESS GESTURE, AS LAWS WILL PROBABLY BE ATTACKED IN THE COURTS (NEW SOUTH WALWS AND QUEENSLAND GOVERNMENTS HAVE ANNOUNCED THEY WILL TAKE LEGAL ACTION IN COURTS AGAINST PETROLEUM AND MINERALS AUTHORITY BILL), AND OPPOSITION MAY HOLD UP BUDGET FOR ACTIVITIES RELATED TO SIX BILLS. DURING JOINT SITTING OPPOSITION LEADER SNEDDEN SAID OPPOSITION WOULD CONTINUE TO OPPOSE HEALTH BILLS AND EXPRESSED CONFIDENCE THEY WOULD BE DEFEATED. OPPOSITION IS LIKELY TO OPPOSE ELECTORAL REDISTRIBUTION RESOLU- TION WHEN IT REACHES SENATE.

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12. LABOR GOVERNMENT HAS AMBITIOUS FURTHER SET OF LEGISLATIVE PROPOSALS, MOST OF WHICH HAVE NOT RPT NOT YET BEEN MADE PUBLIC, DEALING WITH EXPANSION OF SOCIAL SECURITY AND RESTRUCTURING AUSTRALIAN POLITICAL DIVISIONS INTO MORE LOGICAL SOCIO-ECONOMIC UNITS, RATHER THAN PRESENT STATES, WHOSE BOUNDARIES DATE BACK TO THE COLONIAL ERA. WITH PRESENT PARTY DIVISIONS IN SENATE, NOT MUCH THAT IS COONTOVERSIAL WILL GET THROUGH PARLIAMENT, AND GOING TO DOUBLE DISSOLUTION IN NEXT FEW MONTHS OR YEAR WILL BE HIGHLY DANGEROUS TO LABOR, GIVEN GROWING ANTIPATHY AMONG GENERAL PUBLIC TO GOVERNMENT'S PERFORMANCE.

13. IN CONVERSATION WITH CHARGE AUG 1 OPPOSITION FOREIGN SPOKESMAN PEACOCK NOTED GROWING INDICATIONS OF ANGER AND FRUSTRATION ON WHITLAM'S PART, AS MUCH WITH HIS OWN PARTY AS WITH OPPOSITION. PROBLEM FOR OPPOSITION, PEACOCK CONTINUED, WILL BE TO HOLD BACK THEIR ENTHUSIASM AND WAIT FOR RIGHT MOMENT TO MOE TOWARDS ELECTIONS, RATHER THANJUMP TOO SOON, AS HE CONFIDENTIAL

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FELT OPPOSITION HAD DONE EARLIER THIS YEAR.

14. WHITLAM'S PROBLEM WITH PARLIAMENTARY LABOR CAUCUS IS PROBABLY ONLY IN PART EXPLAINABLE ON BASIS OF RIGHT-LEFT DIFFERENCES. IN CONVERSATION WITH CHARGE AUG 5 RACE MATHEWS (LABOR, VOCTORIA) ESTIMATEDHARD CORE LEFTISTS ONLY NUMBER PERHAPS 12, OUT OF 95 IN CAUCUS. RECENT VOTES WHICH HAVE GONE

AGAINST WHITLAM OR COME CLOSE TO DEFEATING HIM ON SPECIFIC ISSUES HAVE INVOLVED 40 TO 55 ADVERSE VOTES, MANY OF WHICH WERE CAST BY MODERATE OR CONSERVATIVE ALP MEMBERS. CAUCUS HAS DECLINING CONFIDENCE IN SOUNDNESS OF WHITLAM'S JUDGEMENT ON ECONOMIC ISSUES. ON BASIS OF PRESENT INDICATIONS, PRIME MINISTER'S PERFORMANCE ON ECONOMIC ISSUES IS UNLIKELY TO SHOW NOTICEABLE IMPROVEMENT IN NEXT FEW MONTHS, AND SOME MODERATE LABOR OBSERVERS HAVE BEGUN TO PREDICT THAT PRIME MINISTER MAY FACE OUTRIGHT CHALLENGE TO HIS LEADERSHIP, ARISING OUT OF ECONOMIC DIFFICULTIES.

15. ROLE OF DEPUTY PRIME MINISTER CAIRNS IN ALL OF THIS IS DIFFICULT TO ANALYZE. HE HAS, FOR MOST PART, LOYALLY STOOD BY WHITLAM, GOING DOWN TO DEFEAT WITH HIM ON RECENT ISSUE OF SALARY INCREASES FOR PARLIAMENTARIANS. CAIRNS APPARENTLY SUPPORTED WHITLAM (AS DID MOST OF CABINET) ON ELECTORALLY SENSITIVE ISSUE OF TERMINATION SUBSIDIES ON PETROLEUM PRODUCTS SOLD IN RURAL AREAS. THUS FAR, CAIRNS HAS NOT BEEN DEFENDER OF CAUCUS WHICH HE WAS WIDELY PREDICTED TO BE PRIOR TO HIS ELECTION AS DEPUTY LABOR LEADER IN JUNE.

16. COMMENT: WHITLAM FACES MOUNTING ECONOMIC DIFFICULTIES WHICH ARE DAMAGING LABOR'S ELECTORAL PROSPECTS AT A TIME WHEN ONLY A PORTION OF ITS LEGISLATIVE PROGRAM HAS BEEN ENACTED. OUR CONCERN THAT CAIRN'S ELECTION AS DEPUTY PRIME MINISTER MEANT SWING TO LEFT CONTINUES TO BE VALID, AS WE SEE IT, IN FOREIGN POLICY PARTICULARLY, BUT THIS IS NOT RPT NOT THE CAUSE OF WHITLAM'S HEADACHES AT THIS POINT. LABOR GOVERNMENT FACES PROBLEM OF BEING BLOCKED IN ITS

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LEGISLATIVE PROGRAM, WHILE ECONOMIC SITUATION DETERIORATES AND DAMAGES ITS ELECTION PROSPECTS.

17. SOLE CONSOLATION FOR U.S. IS THAT, AS LONG AS WHITLAM AND CAIRNS ARE ABSORBED BY FRUSTRATIONS RESULTING FROM PRESENT SITUATION, THEY WILL HAVE THAT MUCH LESS TIME TO DEVOTE TO FOREIGN POLICY MOVES WHICH CREATE PROBLEMS FOR US.

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